

## Chapter 3 Policy Context

### Purpose

Planning and decision making occurs within a much larger policy environment that influences how these decisions are made and on what these decisions focus. This is certainly true in transportation where transportation investment and operations decisions are often linked to non-transportation goals and objectives. For example, the history of federal environmental legislation as it relates to transportation planning and decision making is one where actions in the transportation sector have been used as a means of accomplishing environmental goals—clean air, water quality, noise reductions, etc.

In some sense, the use of transportation “levers” to achieve other policy goals is not surprising in that transportation investment enables many other societal goals to be accomplished. It is hard to imagine a strong and healthy economy without having a transportation system that provides cost-effective mobility and accessibility to generators of economic development. And similarly, transportation system and facility construction, and operations affect environmental quality and, thus, the linkage between environmental and transportation policy exists.

Transportation investment is often viewed as a means to an end. Thus, national and state policies aimed at creating jobs, fostering economic developing, enhancing environmental quality, or creating livable communities rely on transportation investments.

This chapter describes the policy context for the development of the ODOT 2035 Long Range Plan. This context not only includes potential changes in federal transportation and related policies, but also new directions in key elements

of ODOT’s provision of State transportation services for the State, such as possible changes in financing strategies. This chapter provides a sense of the dynamic environment within which State DOT officials often find themselves when trying to provide the State’s residents and travelers with a strong transportation system.

This chapter next discusses likely federal initiatives that could affect state DOT programs, with the understanding that many of the policies and programs that could affect ODOT are yet to be developed, such as the reauthorization of the federal transportation law. The following section covers changes to the *National Environmental Policy Act (NEPA)* process that either have been proposed or have a good possibility of happening. Such changes could significantly affect the way ODOT undertakes environmental analysis. The next section presents information on transportation finance strategies, and the likely challenges facing state DOTs over the next several years. The final section focuses on the impacts on ODOT and ultimately the State’s transportation system.

### Federal Policies Affecting Transportation

Federal policies and funding programs have an important influence on how state DOTs conduct their business. Historically, this influence has been one primarily of providing federal aid in support of a state’s transportation capital program. Although the relative contribution of federal funding as part of Oklahoma’s transportation program has varied over the past two decades, federal funding continues to make up an important component of what ODOT is able to program as part of its transportation investment strategy. In addition, federal policies and regulations have an important influence on transportation program priorities. The following



areas include important initiatives that could influence ODOT's financial ability to invest in the State's transportation system.

### ***Reauthorization of SAFETEA-LU***

The current federal transportation legislation, SAFETEA-LU, expired on September 30, 2009. It is likely that new legislation will not be passed until 2011. Several groups have begun the process of formulating the specifics of such a reauthorization law. As usual with such important legislation, a wide range of interest groups, political organizations, and constituencies will be involved in the process of developing a final bill. Thus, it is too early to say what a new federal transportation law will mean in terms of new initiatives or requirements on state DOTs and MPOs. This authorization effort is particularly complicated this time by the confluence of several different issues, including

- ▶ The insolvency of the Highway Trust Fund
- ▶ The use of federal funds as part of an economic stimulus package that some might perceive as the early down payment of a new federal transportation law (and thus not have as high a level of authorized federal funding as one would expect in a normal federal authorization)
- ▶ Interest in tying transportation and climate change legislation together (see below)
- ▶ The reports of two national commissions on the future of the nation's transportation program and corresponding finance strategies
- ▶ An Administration that will have its own agenda of what a national transportation policy should entail.

Although the specific language of a new federal transportation law will be crafted through negotiations, it does seem likely that new

legislation will include some initiatives in the following areas:

- ▶ Focusing attention on ***rehabilitation and preservation*** of the existing transportation system. This policy focus reflects what has happened in recent transportation legislation, and it is likely that Congressional interest will continue to emphasize keeping the existing transportation system in good condition and achieving reasonable performance levels. This policy focus will likely be emphasized by most of the transportation professional and trade organizations that will be part of the advocacy process for the next transportation act.
- ▶ Establishing a ***performance measurement orientation*** in federal transportation programs. Many states have adopted a performance-oriented approach toward transportation planning and program implementation. There is a great deal of interest among Congressional staff in applying such an approach to the national program.
  - The National Surface Transportation Policy and Revenue Study Commission report of 2008 called for a "comprehensive performance-based approach" to a national transportation program.
- ▶ Providing for a ***stronger focus on transportation system safety***. SAFETEA-LU emphasized the important linkage between transportation safety and planning. The requirement for states to develop a strategic highway safety plan was the first step in what may be others to relate safety priorities to overall project prioritization.
- ▶ Part of a performance-oriented approach will be greater interest in a ***strategic asset management program*** that provides decision makers with the most up-to-date information on the condition of the state's

and metropolitan area’s transportation system. It is not clear at this time whether specific approaches will be required through legislation, but there is a chance that a basic structure for a comprehensive asset management program could be mandated.

- ▶ Encouraging states and metropolitan areas to explore a ***range of funding options*** for transportation system investment. This could include an expansion of previous efforts on innovative financing and a study or pilot program to lay the foundation for a mileage-based fee to augment or replace the federal gasoline tax.
- ▶ Experimenting with ***innovative pricing strategies*** to achieve the most efficient utilization of transportation assets. The federal government has been encouraging “experiments” in road pricing (the Urban Partnership program, for example). Many policy makers have come to the conclusion that there will never be enough funding to build all of the infrastructure that might be required to handle future transportation demands and, thus, are looking at road pricing as a means of “managing” the system better. In addition, pricing can be a source of funding for capitalizing transportation facilities and in maintaining a stream of revenues to cover operations and maintenance costs.
- ▶ Establishing a more direct relationship between ***transportation investment and economic benefits***. In part, this is due to the recent focus on an economic stimulus package aimed at creating jobs. However, Congress, in previous legislative debates, has been interested in efforts to target transportation investment at those actions having the greatest economic benefit. It would not be surprising if the next transportation authorization explicitly called for an evaluation process that estimated the

economic benefits of federally funded projects.

- ▶ Linking transportation planning and investment more closely to desired ***environmental policy outcomes***, such as climate change (operationalized as reducing greenhouse gas [GHG] emissions). One can likely expect that state DOTs and MPOs will be required in their plans and perhaps capital programs to show the impact of recommended actions on GHG emission levels and more widely on general environmental quality.
- ▶ Enhancing the role of ***freight transportation*** in transportation planning and investments. One of the trends over the past two to three federal transportation laws has been an increasing interest in improving the productivity of freight operations in the United States. SAFETEA-LU provided an intermodal freight funding program, but all of the funding was earmarked.
  - It is likely that additional funding will be provided to encourage states and metropolitan areas to invest in projects whose primary benefit will be to improve freight flows.
- ▶ Fostering a ***multimodal perspective in transportation planning and decision making***. The federal government is going to be much more interested in a multimodal perspective to transportation than has occurred over recent years. Thus, for example, national initiatives in high speed rail and livable communities reflect a desire to look at multimodal approaches to providing mobility and accessibility in the nation’s communities.
- ▶ Making the ***project development process more cost- and time-effective***. Previous transportation laws and the National Surface Transportation Policy and Revenue Study Commission focused on reducing the



amount of time it takes to get projects through the project development process. This interest will likely continue in upcoming policy initiatives.

- ▶ Preparing for the transition to a ***new transportation financing strategy***. Much research and many studies have concluded that the current reliance on petroleum-based gas taxes for highway finance is starting to create significant problems in generating sufficient revenues to support the nation's transportation system. Depending on which study is consulted, the gas tax is expected to provide reasonable levels of funding for the next 15 to 25 years; then some other finance strategy will be necessary. Many believe that some form of distance-based tax structure is likely to be the replacement. It will not be surprising if Congress, in the next transportation bill, authorizes demonstrations and studies to examine the process of augmenting or replacing the federal gas tax with other revenue sources, such as mileage-based user fees.

### ***Economic Stimulus Package***

The economic stimulus package (also known as the *American Recovery and Reinvestment Act of 2009*) is one of the most recent examples of the relationship between transportation investment and other policy goals. As of March 2010, the federal government had authorized over \$26 billion for just over 12,000 highway projects in this program. In Oklahoma, \$465 million of economic stimulus funds have been used for highway investment.

ODOT has been very proactive in both following and influencing development of transportation aspects of this economic stimulus package. ODOT procured a design and construction management support service and had

developed a list of projects to submit to the U.S. Department of Transportation (USDOT) in anticipation of the stimulus package funding. Oklahoma has also had one of the best records nationally for allocating this funding in the most efficient and effective manner possible. As additional economic stimulus funds become available, ODOT is well positioned to secure additional dollars for the transportation needs of the state. ODOT was awarded \$48 million in Transportation Improvements Generating Economic Recovery (TIGER) program funds for the I-244 bridge over the Arkansas River in Tulsa in the Spring of 2010. ODOT submitted one of 51 projects nationally to be awarded TIGER funds, from over 1,400 applications.

### ***Environmental and Climate Change Legislation***

In general, the current state of the economy is likely to have a dampening influence on passing legislation that will result in more costly actions and procedures. Thus, it is not expected that any significant new environmental legislation will occur in the short term, although changes in federal guidance (that is, guidance on how these laws should be interpreted) will likely occur. There are three areas—air quality, energy, and climate change—where some changes might be expected.

***Air quality*** Significant changes to the Clean Air Act and its amendments are not expected in the short term, with the possible exception of requiring a more stringent assessment of GHG emissions and, thus, the development of emission inventories. Over the longer term, there is a strong federal commitment to keeping air quality standards in place for non-attainment and air quality maintenance areas. One likely scenario will be the addition of GHGs more explicitly into current *Clean Air Act* requirements.

**Energy** Energy conservation and fuel substitution will be an important focus of policy debate in many Congressional sessions to come. In many ways, this topic is closely linked to GHG emissions in that reducing such emissions is often viewed from the perspective of providing cleaner fuels. The federal government is likely to advocate the use of “green technologies” in a range of policy areas, and transportation will be one of the highlighted opportunities. For example, one of the first actions in the energy/climate change area taken by the new Administration was to rescind the ban on California’s efforts to introduce clean vehicle standards. Over time, the conversion of the motor vehicle fleet to non-petroleum-based fuels creates an important challenge to states dependent on the gas tax for a substantial portion of their transportation revenues.

Another initiative—and one that has been part of previous federal legislation—will be a continued interest in streamlining environmental procedures and processes. This is an issue that has been raised by many different constituency groups and has found strong support among members of Congress. It seems likely, therefore, that efforts will be made in future federal law to promote a more efficient environmental and project development process.

**Climate Change** Given that the transportation sector contributes approximately 28 percent of the U.S. GHG emissions, it is likely that transportation will be a focus of national efforts to reduce GHG emissions. There are two aspects of climate change that could see some action. The first focuses on efforts to reduce transportation-related GHG emissions, either through vehicle and fuel technology changes or through strategies to reduce vehicle miles traveled. These efforts are referred to as *mitigation* actions. The second focus, and one

that is recently receiving policy attention in a significant way, is one that targets climate *adaptation* strategies. That is, with changing climatic conditions over time, what steps if any need to be taken to re-think how transportation infrastructure is developed, provided, and operated?

It is unclear at this point what policy direction the federal government will take on climate change. Much discussion has been given to carbon price or cap-and-trade programs. In such programs, prices increase for goods and services that generate GHG emissions and, given basic economic principles, consumer demand then adjusts to these higher prices. Over the longer term, suppliers are motivated to produce products with lower GHG emissions. Expected GHG reductions depend on the specifics of how a national program is established, with most pending bills designed to achieve 60 to 80 percent GHG reductions by 2050 (some bills peg the reductions to 1990 levels while others are pegged to more recent years).

Although substantive action on a carbon pricing policy has yet to occur, it seems highly likely that the transportation sector (that is, the transportation planning process and perhaps the National Environmental Policy Act [NEPA] process) will be required to undertake new planning efforts and perhaps a conformity-like assessment of investment actions that are part of a capital investment program. In addition, future federal legislation may increase the share of federal funds for transit, intercity rail, bike/pedestrian, and highway/bridge preservation, while limiting the funds available for highway capacity expansion.



## National Environmental Policy Act Provisions

The NEPA process is one of the most influential federal legal and regulatory requirements in the transportation project development process. Changes to this process, either in streamlining the different procedural steps or in adding new requirements, will likely have a significant effect on the state DOTs' capital programs development.

The NEPA process will continue to be the basic framework for assessing the environmental impacts associated with transportation projects. The federal government is not likely to make any significant changes to the impact categories that are part of this process although, as noted earlier, efforts will be made to make this process more "efficient." In addition, impacts relating to climate change are already being considered as part of NEPA guidance. For example, the Council on Environmental Quality (CEQ) issued proposed guidance on February 18, 2010, for the consideration of the effects of climate change and GHG emissions changes in the NEPA process. According to this draft guidance, "... environmental analysis and documents ... should provide the decision maker with relevant and timely information about ... the relationship of climate change effects to a proposed action or alternatives, including the relationship to proposal design, environmental impacts, mitigation and adaptation measures." Other key provisions of this draft guidance include the following:

- ▶ Agencies should determine which climate change impacts warrant consideration.
- ▶ Agencies should determine through the scoping process whether climate change considerations warrant emphasis or de-emphasis.

- ▶ Sensitivity, location, and timeframe of a proposed action determine the degree to which consideration of these predictions or projections is warranted.
- ▶ Impacts may include effects on the environment, on public health and safety, and on vulnerable populations who are more likely to be adversely affected by climate change.
- ▶ Observed and projected effects of climate change that warrant consideration are most appropriately described as part of the current and future state of the proposed action's "affected environment."
- ▶ Climate change effects "can include the impact on the integrity of a development or structure ... increasing the vulnerability of a resource, ecosystem, or human community ... and magnifying the damaging strength of certain effects of a proposed action."
- ▶ Focus of analysis should be on the aspects of the environment that are affected by the proposed action and the significance of climate change for those aspects of the affected environment.

Importantly, in cases where adaptation to the effects of climate change is considered significant, aspects of these changes should be identified in the agency's final decision, and adoption of a monitoring program should be considered. Monitoring strategies should be modified as more information becomes available and best practices and other experiences were shared.

NEPA GHG impact analysis could be complicated further by the need to consider cumulative and indirect impacts of project alternatives on the global climate. This is notwithstanding the evidence that major, large-scale transportation projects (e.g., 100-mile highway corridors) would account for a tiny fraction of a percent of state, U.S., or global GHG. If such NEPA analysis is required, state

DOTs will face the challenge of doing the required analysis and communicating its relevance effectively to the public, as well as identifying GHG mitigation measures that can be incorporated into project alternatives.

It should be noted that officials at the Oklahoma Climatological Survey (OCS) have been mandated by the Oklahoma legislature to provide climate information and expertise which could be of value to the public as well as to State policy and decision makers. In a 2008 report, the OCS agrees that the earth's climate is warming, it will continue to do so, and that Oklahoma will be affected. The OCS has recommended that four specific initiatives be aggressively pursued:

- ▶ The State should undertake a comprehensive assessment of Oklahoma's social and economic vulnerability to climate variability and climate change.
- ▶ OCS recommends immediate funding of the Oklahoma Water Resources Board's Comprehensive Water Plan Study to identify existing as well as projected needs for water.
- ▶ OCS encourages efficiency programs to reduce the State's growing demand for energy.
- ▶ OCS recommends investment in renewable energy technology and production.

Clearly, there are similarities in potential initiatives with transportation. They include the ever-important linkage to the State economy and the prospects for increased vehicle and fuel efficiencies.

## Funding and Finance

With the federal transportation program and many states' programs facing funding shortfalls, it is likely that much of many government levels' policy attention over the next several

decades will be on finding the resources to support transportation system investment.

### *Current Situation with Federal Funding*

Congress established the Highway Trust Fund (HTF) in 1956 so that federal taxes on gasoline and other motor fuels could be used to help build and maintain a national highway system. This was an extremely successful approach to creating an interstate system that is a standard for the world. The HTF was created as a user-supported fund. Simply, the revenues of the HTF were intended for financing highways, with the taxes dedicated to the HTF paid by highway users. When a portion of the funds was allocated for mass transit, no structural adjustment was made.

Today, issues like inflation in construction costs; increasing costs of urban and other congestion-related improvements, including fixed-rail transit; and escalating freight demands accompanied by the ever-increasing maintenance and operation requirements, mean the current levels of the HTF taxes are grossly inadequate for funding major maintenance, much less system improvements. A permanent solution to the dwindling capacity of the HTF to provide the federal share of project funding has not yet been found. To date, Congress has transferred General Revenue funds to the HTF to meet the requirements of the federal-aid program and has neither increased the federal gas tax nor identified other funding sources to make the HTF solvent. When these stresses are combined with pressures to improve fuel efficiency, a move to alternative fuels and decreased vehicle miles traveled, new transportation financing solutions are needed. Increasingly around the United States, states and metropolitan areas are creating their own sources of additional funding for transportation, primarily because they cannot wait for the



federal government to develop a more permanent solution.

### ***Federal Policy and Revenue Commissions***

SAFETEA-LU recognized that the issue of transportation funding was going to require new ideas and approaches in the next reauthorization cycle. As a result, two separate commissions were authorized with mandates to examine and recommend changes to the structure of federal transportation finance. Both Commissions have reported their findings. Interestingly, in both cases, a very strong recommendation was made to increase the federal gas tax.

### **National Surface Transportation Infrastructure and Financing Commission**

Section 11142(a) of SAFETEA-LU established the National Surface Transportation Infrastructure Financing Commission (Financing Commission). The Financing Commission was charged with analyzing future highway and transit needs and the finances of the HTF and then making recommendations regarding alternative approaches to financing transportation infrastructure.

When the Financing Commission released its final report, the leading statement was, “The nation’s surface transportation system is in a ‘physical and financial crisis’ because current revenue is insufficient to maintain and improve this country’s highways, public transportation systems and intermodal connectors.”

The Financing Commission made several observations:

- ▶ Transportation system demands are outpacing required investment.
- ▶ Maintenance costs are competing with necessary expansion of the system.

- ▶ The fuel tax, which has been the key federal funding source for our system, is no longer sufficient at current rates.
- ▶ More direct user charges should be explored.
- ▶ Not only is more investment in our system needed, but more intelligent investment complemented by better operation of the system is highly desired as well.

One of the most telling aspects of this report was the concept that relying principally on the federal fuel tax “may not be a sustainable strategy in the long run” because as fuel economy continues to rise, “the fuel taxes that are the backbone of the federal transportation revenues will continue to shrink relative to use and needs of the system.”

### **National Surface Transportation Policy and Revenue Study Commission**

The National Surface Transportation Policy and Revenue Study Commission (Study Commission) was the second congressionally chartered entity created in SAFETEA-LU to develop recommendations for Congress on how best to meet the nation’s surface transportation needs. The report, released in January of 2008, covered both policy and revenue recommendations. The report included documentation of the nation’s surface transportation challenges and an assessment that the nation’s unmet annual surface transportation needs total in the range of \$225 to \$340 billion. The Study Commission’s finance recommendations were based on this needs assessment and assumed the historic 40 percent federal share of these investments.

The report called for a new independent commission, the National Surface Transportation Commission (NASTRAC). NASTRAC would identify the federal investment share of a national surface transportation plan



and recommend a financing proposal (removing much of the existing control from Congress.) As this new structure would be mode neutral, the Study Commission proposed to allow HTF revenues to be used for all surface transportation projects, including passenger and freight rail activities. The Study Commission also endorsed a series of new freight and passenger rail fees that presumably would be deposited in the fund, which would then be called the Surface Transportation Fund. Under the Commission’s proposal, Congress and the President would be given an opportunity to reject or accept the NASTRAC transportation plan and financing proposal.

To achieve the Study Commission’s short-term investment goals, the report proposed to increase the federal motor fuels user fee annually by five to eight cents per gallon per year over the next five years. Under this proposal, the cumulative increase would be between 25 to 40 cents per gallon. The motor fuels user fee would then be indexed to inflation following this ramp-up period. The Study Commission also endorsed other financing alternatives, including congestion pricing, tolling, public-private partnerships, and freight-based user fees. Furthermore, the report recognized the need for states to increase their surface transportation investment levels. For the long-term, the Study Commission called for a study to guide the transition from a fuel-tax supported system to a vehicle-miles-tax financing mechanism by 2025.

Neither of these Commission’s recommendations has yet to be acted upon by Congress.

In the absence of national level progress in increasing the funding amount dedicated to transportation purposes, many states and metropolitan areas are adopting their own sources of funding. These include the use of

tolls, regional sales taxes dedicated to transportation, and public-private partnerships, among others.

### ***Potential Funding Strategies***

A variety of funding strategies exist for states to add to the transportation revenue base other than raising motor fuel taxes. Some of these strategies have been used for many years, while others are relatively new to the transportation sector.

#### **Tolling**

Tolling has been increasingly acknowledged nationally as one strategy to increase available revenues. Many urban areas are either converting high occupancy vehicle (HOV) lanes to high occupancy toll (HOT) lanes or adding new priced lanes. Of particular interest is the use of congestion pricing in urban areas not only to provide revenue but also to encourage mode shifts, reduced trips, and changes in travel patterns.

The Oklahoma Turnpike Authority (OTA) has the authority to collect and bond against toll revenues. Some states have turned to existing toll agencies to expand their responsibilities or extend their jurisdiction to provide more resources to the transportation system. Others have used toll revenues as a means of leveraging more federal or private investment in the road network. Although sometimes politically difficult to do, fostering the development of a tolled road network could be an important component of a state’s future road system.

#### **Bonding**

Issuing tax-exempt bonds can be an effective strategy to accelerate the delivery of needed transportation projects. While toll revenue bonds must be issued by the OTA, between 2004 and 2008, ODOT used Grant Anticipation



Revenue Vehicles (GARVEE) bonds (leveraging future federal funds) to provide the capital to implement projects. Additionally as of 2010, the Oklahoma Capital Improvement Authority issued bonds for the Department to support transportation projects. Other states issue fuel-tax-backed bonds or simply issue general obligation bonds to move projects along before inflation erodes the present value of transportation funding. Bonding, however, is only a partial solution to a capital finance strategy if the same revenue sources that repay the bonds would have been used for pay-as-you-go projects.

### **Public-Private Partnerships**

In its simplest form, a public-private partnership is an agreement between public and private sector parties that transfers infrastructure delivery functions to private entities. The most successful partnerships have included the transfer of both risk and responsibility together. For example, the private partner in a toll road has the potential to profit from the venture but also risks a loss if toll revenues do not equal projections.

Many reasons have been offered as to why a DOT should consider using a public-private partnership approach. One reason is to transfer the financial risks associated with building and operating a new facility, including financing, construction (new and extensions), operations and maintenance, and revenue generation (assuming a tolled facility). Another reason has been to increase the financial resources available for accelerating capital program implementation. Most public-private partnership projects that are privately financed use a combination of debt (e.g., bonds or loans) and equity (e.g., private capital investment in the project). This provides the potential for increased flexibility in financing to increase

leverage. Depending on the restrictions of the public sector, this approach may close the “gap” on under-funded projects without raising taxes. Restrictions on public sector debt capacity have been another reason why some public agencies have entered into public-private partnerships.

Of value to the transportation community are projects where the private sector provides financing, design, construction, operation, and maintenance of new facilities. The repayment to the private party for providing these services may be of three varieties: (a) through revenues collected, such as tolls, (b) by receiving periodic payments from the public entity usually designated as availability payments, or (c) a combination of the two. The strategy of availability payments leaves the risk of an adequate revenue stream on the public sector but provides additional leverage as full payments are made if the private sector partner meets availability and other performance criteria. The requirements are the same if the private entity is paid through a direct revenue stream, but the immediate leverage for the public sector is less.

### **Increasing Fuel Taxes and Other Fees**

The SAFETEA-LU commissions and many other national organizations have recommended an increase in the federal gas tax as the most obvious means of increasing the level of funding for highway transportation, in some cases by substantial amounts. Many have argued the same for states as well. Fuel taxes have been the mainstay of highway programs for decades and are viewed by the general public as a necessary means for providing transportation infrastructure. In addition, any increase in federal funding will most likely require an increase in matching funds at the state level.

Although acknowledging the political difficulty in doing so, many of those who participated in the

outreach effort for the development of this Plan recommended an increase in the State’s gas tax. The rationale for doing so was primarily that the public was used to this form of user fee, the institutional structure was set up to collect any additional funds that would come from this source, and there was a perceived fairness that those who use the system are paying for its upkeep. Currently, Oklahoma has one of the states’ lowest fuel tax rates at \$0.13 per gallon for diesel fuel and \$0.16 per gallon for gasoline plus a \$0.01 environmental fee.

### **Vehicle Miles Traveled (or Distance-based) Fees**

One of the longer term limitations of relying on a motor fuels tax for transportation funding is that increasing vehicle fuel economies and changes to alternative fueled vehicles will result in declining transportation revenues. A consensus seems to be building that converting from a pure motor fuel consumption tax basis to a system of charging for vehicle miles traveled (VMT) is a likely strategy for future highway finance. Other countries and several states have been examining such a strategy over the past several years. Not only will such a strategy serve as a replacement funding source for declining gas tax revenues, but some argue that creating a stronger link between driving and the fees paid could promote more efficient system use.

A number of studies and pilot programs of a distance-based financing strategy have been underway across the U.S. A pilot program in Oregon is the most advanced, having completed both a concept study as well as an actual test program with drivers. This demonstration program was a secure, confidential system where VMT data were collected via satellite by geographic zone, and this information was then transferred to a sensor at a fueling station and fees calculated. Interestingly, this system

provided for possible congestion pricing. It provides an ability to charge differential prices by location and by time of day.

The implementation of a national distance-based highway finance strategy will be complex and will clearly require national leadership. The challenge will be determining what technology will be necessary to provide for consistent collection of distance traveled information across the nation, and how the nation can transition from the current approach to a new strategy within the next 20 to 30 years. Such an approach will also be a challenge to individual states with respect to each state’s own means of collecting highway revenues.

### **Impact of an Evolving Policy Context on ODOT**

The most important short-term, and most likely long-term, challenge to the ODOT will be obtaining the necessary funding to support the State’s transportation system. Although the federal government might continue to emphasize “innovative financing” and public-private partnerships, even if used in Oklahoma, they would not provide the funding levels necessary to support the State’s transportation needs.

The impact on ODOT and on the development of the Plan of the evolving policy context as described in previous pages falls into several categories:

- ▶ It is an understatement to say that the transportation finance “picture” in the U.S. is unclear. With states and MPOs often looking at capital programs exceeding the federal authorization limits, this uncertainty becomes an important element of how a statewide transportation plan is developed. For example, one approach is to develop a “tiered” plan that focuses on those programs



and projects for which funding is known to be available over the life of the plan and then develop different investment scenarios depending on the addition of a certain level of funding. This tiered approach provides the most flexibility in focusing on the most important State transportation needs.

- ▶ Many states have taken a position that the federal transportation program, albeit an important one for their own state's needs, is so uncertain and unreliable that they need to develop a "menu" of financing options that can support a state's transportation program in times when federal funding is in a state of flux. Some elements of such a menu were mentioned in the previous section and could become the focus of discussions in Oklahoma on what types of finance strategies might make most sense.
- ▶ Both in the economic stimulus package and in the discussions currently surrounding the re-authorization of the federal transportation law, an important focus on performance measurement and program monitoring is suggested to establish greater accountability for the transportation funding that has been provided. This could have an important implication to ODOT in terms of having in place the database systems necessary for tracking the performance categories.
- ▶ Given the scarce resources to fund the State's transportation needs, and given likely requirements to allocate dollars in the most cost beneficial manner, it is important that ODOT have in place the information systems and prioritization procedures that reflect the desired transportation system performance. ODOT should establish and maintain protocols that assist the State in measuring where the best investment can occur while keeping in mind that it is necessary to remain flexible to respond to the require-

ments of pending federal surface transportation legislation.

- ▶ In the short term, few significant changes to federal environmental laws, either substantive additions or removals of requirements, are expected, except in one area—climate change. It is unclear at this time what changes may occur with respect to climate change, but it is likely that, at a minimum, impacts of transportation programs and projects on GHG emissions will be required as part of the project evaluation process (such as NEPA procedures). These are also likely to be required in state and regional transportation plans.
- ▶ Congress and the Administration have indicated an orientation to urban or metropolitan needs. This is likely to manifest itself in targeted funding programs at urban areas, with various roles and responsibilities for the relevant MPOs. The relationship between the state DOTs and MPOs will be a very important foundation for developing capital transportation programs in urban areas that meet the goals of both the state and the urban areas.
- ▶ As noted in the discussion of likely themes for reauthorization legislation, the attention to freight movement and, in particular, investments in the transportation system enhancing the productivity of freight operations will likely increase over the next several years.
- ▶ The nation is likely to transition to some form of distance-based finance strategy over the next 20 to 30 years. It is likely too soon for ODOT to conduct any detailed analyses on what might occur or the types of programmatic structures that could be put in place. However, at a minimum, a need exists to start the education process of key decision makers that such a transition is likely to occur.